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Towne, Henry Robinson

The neutral line

[New York]

1913

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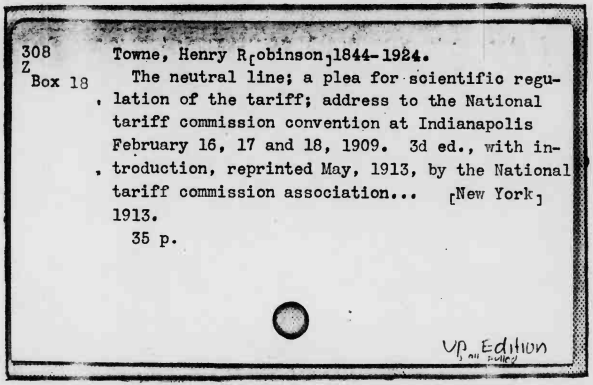

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THE NEUTRAL LINE

A PLEA FOR SCIENTIFIC REGULATION OF THE TARIFF

ADDRESS TO THE NATIONAL TARIFF COMMISSION CONVENTION AT INDIANAPOLIS FEBRUARY 16, 17 AND 18, 1909

THIRD EDITION—WITH INTRODUCTION

REPRINTED MAY, 1913
BY THE
NATIONAL TARIFF COMMISSION ASSOCIATION
WOOLWORTH BUILDING
233 Broadway, New York

BY
HENRY R. TOWNE
President Merchants' Association of New York
Treasurer National Tariff Commission Association

MAY, 1913

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FOREWORD

FOR over four years the National Tariff Commission Association has conducted a campaign of discussion, consideration and education through the business organizations of the United States which has covered every section of the country, and I think I may say, has resulted in giving to all kinds and conditions of men, in all parts of the United States, a very clear idea of what a Tariff Commission means. While there are some scoffers who still believe that it is impossible to get our Congress to treat the tariff in a business-like manner, on a basis fair and equitable to all, the unquestioned general sentiment is that in the Tariff Commission idea lies the means of preventing the trading and log-rolling which has characterized and will characterize tariff bills enacted under the present system.

The magnitude of the work of reaching all parts of the country and interesting it in a discussion of this kind can hardly be realized by those not engaged in it, and it has only been accomplished by the most thorough and systematic presentation of the case, and the constant exchange of views by correspondence, speeches and especially through the press.

In this work no single statement of our cause has been of as great value, or in as continuous demand from those interested in the subject, as the address of Mr. Henry R. Towne given at the first Tariff Commission Convention at Indianapolis in February, 1909, and afterwards published under the title "The Neutral Line."

In publishing the Third Edition of this address I wish, on behalf of our Association, to call attention to the fact that the clearness, directness and simplicity of the argument has stood the test of an intense discussion to a remarkable degree, and to express to the author our appreciation of his work.

JOHN CANDLER COBB,
President National Tariff Commission Association.

INTRODUCTION TO THIRD EDITION

MAY, 1913

THE continuing demand for the paper entitled "The Neutral Line," which is reprinted in the following pages, necessitates the issuing of this third edition. That demand emanates from organizations and individuals who have occasion to study the subject of our method of framing tariff laws, and who desire information concerning the essential facts involved. This paper is believed to present those facts as fairly and fully as any yet prepared.

The argument for a permanent, impartial, and qualified body of technical experts, to collect, analyze, and tabulate statistical and technical data pertinent to the tariff schedules, is not only as strong to-day as when the following paper was written in 1909, but has been demonstrated and intensified by the subsequent experience of this country in tariff legislation.

The Payne-Aldrich Tariff Bill was formulated by the Republican majority in Congress under substantially the conditions which obtained in previous cases, as briefly referred to on page 22 of the paper. The Underwood Bill, now pending before a special session of Congress called for its consideration, has been formulated by the Democratic majority in Congress under practically like conditions. During January last the Ways and Means Committee of the House gave a series of hearings on this Bill intended to afford all concerned opportunity to be heard. With a few exceptions, one day was assigned to the hearing of each of the great tariff schedules and the few hours thus available to the many vast and varied industries affected by each schedule were apportioned by minutes to those who sought to be heard. These assignments of time for each industry or group of industries varied from one hour or more down to ten minutes or less. The inadequacy and absurdity of this method of attempting to deal with great interests, and with innumerable technical problems, is self-evident, and

is shown by the many discrepancies and anomalies embodied in the proposed Underwood Bill, as conceded even by those who favor its adoption as the best bill attainable by our present antiquated method.

No one who intelligently comprehends the subject suggests that the pending bill should be held up and action on it postponed until a Tariff Commission can be created, and shall have reviewed the bill. On the contrary, men of all parties and all interests unite in conceding that the downward revision of the tariff, which was decreed by the country at the election in 1912, should be accomplished as speedily as possible, so that the uncertainty which now prevails may be terminated, and that business may proceed to adjust itself to the new conditions. What is desired, however, by the great and increasing number of those who, since 1909, have urged the creation of a permanent Tariff Commission, is that, immediately following the passage of the pending tariff act, legislation shall be enacted creating a permanent governmental body to commence the work of compiling and maintaining the fund of statistical and technical information which hereafter should be available to Congress when framing or amending tariff legislation.

Experience has shown that each and every tariff bill framed by the old methods has been full of inconsistencies, errors, and inequalities, and this fact has always formed the chief argument of those who have clamored for the repeal of an existing tariff law, and the enactment of a new one. This statement will apply to the pending bill, and must apply to every future bill until we have reformed our *method* of constructing and revising our National Tariffs. So long as our *method* continues to be hopelessly wrong and ineffective it is useless to expect that any tariff bill, however sound and acceptable to the country in principle, will be sound and correct in detail, and therefore assured of general and lasting acceptance. The defect in our *method* is the attempt to determine the vast number of essential facts, a knowledge of which is essential to intelligent tariff making, by means of hearings, however prolonged, of a Committee of Congress, composed of men having many other duties, few of them having any of the needed technical training and experience, and all of

them under the necessity of reaching conclusions, within a few months at longest, upon questions affecting each and all of the vast and varied industries of the nation. Every other great industrial nation has long since recognized the utter inadequacy of this *method,* and has substituted for it the modern system of continuous research by a permanent staff of trained and competent experts, the fruits of whose work are available to the legislative body and are utilized by the latter as the foundation for its tariff legislation.

No one is longer misled by the argument formerly used that the modern method of a Tariff Commission, or its equivalent, would imply the usurpation of the legislative function of Congress. Under the Constitution, Congress, and Congress alone, has the power to impose taxes to provide our national income, and the tariff is a tax. The tariff *policy* of the nation is determined by the people at our national elections, and is formulated into law by their representatives in Congress assembled. Whatever that policy may be, whether a tariff for revenue or protection, or any intermediate plan, it is of vital importance to all interests, and to all the people, that the plan or policy adopted should be applied intelligently, correctly, and with the most complete possible understanding of all the underlying facts. The function of a Tariff Commission is to ascertain, record, and report these facts, leaving Congress free to deal with them as it may see fit.

The present time, we submit, is most opportune and favorable for the enactment by the party in power of a law creating a permanent body of tariff experts for the purpose thus outlined. The Republican party enacted a new tariff bill in August, 1909, which when superseded will probably have lasted about four years. The Democratic party is now about to enact another tariff bill, differing radically in principle from its predecessor, which may have a shorter or a longer life. Since 1890, when the McKinley bill was enacted, we have had in all four tariff acts, their average life thus being less than six years each. It would not be reasonable to assume that the life of the bill now pending will be longer. Both of the two great political parties should recognize the facts herein pointed out, and unite now in legislation which, without

further delay, shall create and set in motion an effective governmental agency for conducting the vast and constantly increasing amount of technical and statistical work involved in the gathering, analyzing, and compiling of the information needed by Congress as a basis for intelligent tariff legislation, and which every future Congress, of whatever political complexion, is fairly entitled to have to guide it in one of its most important functions. This reform in our method of procedure in these matters is now well understood by a great part of our people, and is favored by all who understand it. Almost without exception it is not only favored but demanded by the great industrial and commercial interests which the tariff chiefly affects. In enacting legislation needed to effect this reform, Congress will thus be responsive to the needs and the wishes of the country.

INTRODUCTION TO SECOND EDITION

DECEMBER, 1910

WHILE the argument offered in the following paper is believed to be as inherently sound to-day as ever, the situation to which it relates has changed greatly since it was presented at the Indianapolis Convention of February, 1909.

Then, the proposition that a permanent, non-partisan Tariff Commission should be made a part of the regular machinery of the Federal Government was new to most, and startling to many, of our citizens; to-day it is understood by nearly all of them, and is favored by a decisive majority of those who understand it. Then it was opposed or ignored by politicians, and by most members of both Houses of Congress; to-day it is perhaps the most actively discussed measure of pending legislation before the country. Then it was merely a theory, which its advocates sought to transform into a reality; to-day it is a reality, partially complete, in the form of the existing "Tariff Board" created by President Taft, under the authority given to him by a clause in the Payne-Aldrich Tariff Bill of August, 1909. For the progress thus made, and for the enlightenment of the public understanding which produced it, credit must be given in large part to the National Tariff Commission Association, which was brought into existence by the Indianapolis Convention. It is hoped that the work so begun and so carried on may be brought to a successful conclusion during the present session of Congress, and there is much encouragement for believing that this hope may be realized.

THE NEUTRAL LINE

A PLEA FOR SCIENTIFIC REGULATION OF THE TARIFF

By Henry R. Towne, President of the Merchants' Association of N.Y.
February, 1909.

DEFINITIONS

(From the Century Dictionary)

TAX; a disagreeable or burdensome duty or charge; an enforced proportional contribution.

DUTY; a tax or impost.

TARIFF; a list of goods with the duties to be paid on them.

PROTECTION; a system of developing the industries of a country by means of imposts on products imported into that country.

SUBSIDY; an aid in money.

TECHNICAL; those things which pertain to the practical part of an art or science.

SCIENTIFIC; concerned with the acquisition of accurate and systematic knowledge of principles by observation and deduction.

NEUTRAL; in the condition of one who refrains from taking sides in a contest.

THE ARGUMENT.

THIS paper is intended to set forth an argument, and the salient facts on which it is based, in favor of a permanent technical official organization, as a necessary instrumentality for a continuing adjustment of the tariff, by methods which will assure equal consideration to all interests, those of the producer, the distributor, and the consumer; in other words, a means whereby Congress shall be aided in finding the "Neutral Line"

which will imply a maximum of advantages with a minimum of disadvantages to all interests concerned. The argument will be confined to this *single issue*, and will include no discussion of the opposing theories of protection and free trade, either of which, in practical application, would be benefited by the existence and work of the proposed new organization.

THE TARIFF.

TAXES are either direct or indirect. A tariff is an indirect tax. Its primary purpose is revenue; it may include the secondary purpose of protection. A tariff rate intended to prevent importation ceases to be a tax and becomes a subsidy.

In considering any proposed tax, these questions should be considered:

1: On whom will it fall?
2: What revenue will it yield?
3: Whom, if any, will it benefit?

If reliable data are available, and if the tax is for revenue only, these questions may perhaps be easily answered; but if it is wholly or partly for protection, to foster and benefit certain classes of citizens at the possible or intended expense of other classes, the problem becomes vastly complex, and its just solution requires information of many kinds, both industrial and commercial, concerning both domestic and foreign conditions, and a judicial atmosphere free from bias, selfish influence, or corruption. In both cases the effort should be to find that "Neutral Line" between opposing considerations which will ensure the maximum benefits and the minimum evils, the greatest justice and the least injustice, to all interests. The first endeavor should be to ascertain and consider the classes which must pay the tax; not those which it will benefit. Throughout should be kept in mind the fact that three great interests are involved, viz., the government, which must have revenue; the people, for whom the government exists, and who must pay the taxes which support it; and the beneficiaries (if any) of the tax, whose interests are opposed to those of the other two, even though the public welfare may be promoted by encouraging the industry which they represent. The

end to be sought is the "Neutral Line" which implies equal justice to each interest involved.

It is the settled policy of the United States to obtain a large part of its income from duties on imports, and in doing this to foster and promote domestic industries. Of its total revenue of about $670,000,000, approximately one-half is derived from customs. Does not that function of the government which controls the collection and determines the incidence of this great tax upon the various classes of people and their diverse industries, justify and demand the creation of an adequate method for adjusting its vast number of details so that the tax shall be distributed fairly among those by whom it is to be paid, and shall yield the best results to the government and to those, if any, whom it is intended to benefit?

PRESENT EVILS.

THE tariff affects, directly or indirectly, all interests and all classes; therefore, all interests should be heard and considered in the adjustment of the tariff schedules. Does the present method accomplish this? Is not the contrary fact conceded? Under the present plan the work is done by the Committee on Ways and Means of the House of Representatives, and by the Committee on Finance of the Senate, each sitting separately, each independently reaching tentative conclusions, and both reaching a final concurrence, which perforce implies mutual concessions and compromise. These committees have little or no disinterested expert assistance to guide them in their work. The evidence submitted to them is wholly *ex parte*. Practically only one side of the case is ever effectively presented, viz., that of the parties interested in having a high rate of duty. Those who must pay the resulting tax, that is, the consumers, are rarely heard or represented. The present plan provides no means whereby the interests of the vast body of consumers are intelligently studied, or whereby they are enabled, still less encouraged, to make any collective effort for the protection of their interests.

The conditions under which this highly technical and vastly complex subject is now dealt with would be ludicrous, if they were not so utterly inadequate and unfair. The members of the

Congressional Committees are exceedingly busy men, each serving on other committees also, and devoting only a portion of his time to this work. Necessarily their public hearings must be limited to intermittent days, and be kept within limited hours, yet even ignoring these limitations, as pointed out by Senator Beveridge in the speech delivered by him in the Senate, February 5, 1908, the time during which tariff bills have been considered, matured, and adopted during recent years has been strikingly inadequate, the facts being as follows:

1890, McKinley Bill, House 5 mos., Senate 2 mos.
1893, Wilson Bill, House 4 mos., Senate 3 mos.
1897, Dingley Bill, House 4 mos., Senate 1¼ mos.

In the same speech the Senator says:

> "At the public hearings the committee rooms overflow with representatives of various interests. The private hearings are equally congested. Both are rushed and confused. At these hearings there is no time, no opportunity, to go into any one subject thoroughly; no time, no opportunity, to test the statements there made; no time, no opportunity, to verify a single supposed fact. The most honest and alert man could not possibly prevent, or even know about, incorrect statements; and the best of men might be excused from making a tariff rate which they did not intend to make, and which, had they known all the facts, they never would have made."

He then quotes a signed article by Senator Vest in which the latter says:

> "I look back now upon what occurred during the Wilson-Gorman bill as a nightmare, from the effects of which I have never recovered. Before the conference ended three of the conferees had broken down under the constant strain to which we were subjected."

When Congress proposed to consider a revision of the present tariff schedules in November, 1908, a card was issued by the Committee on Ways and Means inviting persons who desired to be heard to apply "to be assigned to a place on the program," and naming fourteen dates for the hearings, beginning November 10th and ending December 4th. Each hearing was to cover a

"specific schedule," and was expected to last two days. The first two hearings covered the schedules relating to chemicals, liquors, tobacco, and sugar. One hearing, that of November 25th, was allotted for considering the question of duties on "metals and manufactures of"; that is, practically everything composed wholly or chiefly of metal; from pig iron to pins, from steel rails to sewing machines, from jewelry to stoves, watches, and steam engines. Is it surprising that the thousands of manufacturers concerned were conspicuous by their absence from so farcical a proceeding?

Senator Beveridge, in his intelligent review of the facts, refers further to the great discrepancy in the conclusions reached by the Senate and House Committees, in their attempt to deal with technical questions involving applied science in almost every department, and commerce in every branch. He says the differences between the duties fixed by the House and by the Senate, when framing the Dingley Bill, were "so wide apart that they are startling." The following are typical of the many examples he cites, viz.:

Borax, per lb.,	House 2c.,	Senate 5c.
Phosphorus, per lb.	House 20c.,	Senate 10c.
Certain Knives, per doz.,	House 75c.,	Senate free.
Certain Files, per doz.,	House 30c.,	Senate 50c.
Finished Lumber, per M. ft.,	House 50c.,	Senate 35c.
Sugar Cane, per cent. ad valorem,	House 20c.,	Senate 10c.
Certain Cotton Cloth, per sq. yd.,	House 8c.,	Senate 6½c.
Floor Matting, per sq. yd.,	House 8c.,	Senate 4c.

The Conference Committee, which finally adjusted these differences of from 50% to 150%, was in session *only five days*. If these great discrepancies were due to the submission of divergent facts to the two Committees, obviously the present system is at fault. If the two Committees reached such divergent conclusions from identical facts, is it surprising in view of the inherently technical character of the problems involved, and of the utter lack of qualifications, by previous experience on the part of the members of the Committees, to deal with such problems?

In the latter connection it is significant that, of the House Committee which framed the Dingley Bill, one member was an

editor, one a wood manufacturer, and all the others lawyers. Is it surprising that a Committee so constituted, when called on to deal with a problem so technical, so complex, and so outside of the previous knowledge of its members, in such limited time and under such unfavorable conditions, should fail to reach sound conclusions? On the contrary, is it not self-evident that, by a method so inherently faulty, only a faulty result can be hoped for; that the method has become outgrown, and that it should give place to one better suited to present conditions? No one who has not studied the subject can realize the vastness and complexity of the problems involved in this work, the solution of which so vitally concerns and affects industry and commerce of every kind, and in every section of the country.

EXAMPLES.

AS an example of the evils of the present method may be cited the case of the duty on pig lead.

On the one hand we have the argument of a committee of manufacturers of lead products, set forth in a 24-page brief, issued in December, 1908, which shows that during the past eleven years the duty on lead has averaged 67% ad valorem, the duty on pig iron averaging less than 25%, and ingot copper being on the free list; which claims that the present duty is "prohibitive" and "unjust"; and which urges that it should be materially reduced. On the other hand we have Senator Borah, of Idaho, stating that in his belief a reduction would result "in the practical suspension of production of a very great number of mines, and tens of thousands of people out of employment," many other parties in interest supporting this view.

Under present practice a decision between these clashing arguments and pleas must be made by Congress, guided by such argument as may be submitted to its Committees, most, if not all, of these arguments being *ex parte* and representative of conflicting interests, with little knowledge on the part of those who must decide the question as to the many and intricate technical facts which underlie it, and with no means available for quiet and thorough study of these facts by competent and neutral investigators. Is it reasonable to hope that, under such circumstances,

the "Neutral Line" will be found which would imply the maximum of benefits and minimum of injury to all concerned as producers and consumers of pig lead?

In the textile trades alone the variety of products involved is counted by the thousands, and includes such scope and contrast as the following examples, viz., cotton cloth and cassimeres, kerseys and knit goods, sail cloth and satin, stockings and sheets, silk and serges, ribbons and rags. Again, in the metal trades are included such range and contrast as the following suggest, viz., pig iron and printing presses, locomotives and locks, bridges and bells, chronometers and cables, steel billets and silverware. The latter group of products involves the employment of such diverse trades as the following, viz., molders and machinists, blacksmiths and boiler makers, watch makers and tool makers, finishers, firemen, files and fitters, etc., etc.

The foregoing references are merely typical, a mere beginning of a full enumeration of products and processes as to two of the many important groups involved, each and all of which, in nearly each and all of their myriad products and processes, are affected directly or indirectly by tariff legislation. In order to follow intelligently simple statements of fact, by qualified experts in each of these varied fields of applied science and industrial activity, implies the need of knowledge in metallurgy, chemistry, electricity, agriculture, animal industries, textile industries, manufacturing and milling, and, finally, of commerce in its many phases. Is it surprising that the present method has failed to cope successfully with the problems thus presented? Is it not evident that we need some better process by which to find the "Neutral Line" which shall imply the equal consideration of all interests concerned, above all those of the consumer, the common people?

THE REMEDY.

TO correct these evils, to replace the present antiquated, inadequate and outgrown method by one better fitted to present day conditions, the remedy heretofore proposed, and which this argument is intended to advocate, is the creation of a permanent technical governmental agency, designed and equipped to collect, collate and study statistical facts of every pertinent nature, and

to place the knowledge so acquired at the service of Congress, to aid and guide it in framing Tariff legislation so that it shall best conform to that "Neutral Line" which implies the greatest regard for the interests and rights of all the people.

The project of a permanent Tariff Commission has now been long enough before the people to have become familiar and understood. The National Association of Manufacturers (with a membership of 3,000 firms) on February 4, 1908, adopted the following resolution:

> "That, for the promotion of the best interests of American industry, this conference advocates the immediate creation of a non-partisan permanent tariff commission, for the following purposes and ends, through Congressional action, viz.:
>
> First, The intelligent, thorough, and unprejudiced study of facts.
>
> Second, The development and enlargement of our foreign trade.
>
> Third, The accomplishment of this by reciprocal trade agreements, based on maximum and minimum schedules.
>
> Fourth, The adjustment of the tariff schedules so that they shall affect all interests favorably and equitably, without excessive or needless protection to any."

The Merchants' Association of New York, in December, 1907, adopted a similar resolution, as follows:

> *"Resolved,* That the Board of Directors of The Merchants' Association of New York heartily endorses the proposal to create a permanent tariff commission, which shall take the tariff out of politics and politics out of the tariff; which shall include in its membership men qualified by training and experience to deal with the problems which would come before the Commission; which would command the confidence and respect of the country; and which would be competent to obtain and compile statistical information needed by Congress, and to formulate proposed legislation relating to the tariff, in a manner which would simplify and facilitate action thereon by the legislative department of the government."

This action was reaffirmed in December, 1908, at which time additional resolutions were adopted, including the following:

> "The creation of a permanent Tariff Commission, for the purpose of collecting, collating, and studying industrial and commercial facts, in this and other countries, pertinent to the tariff question, for the information and use of Congress in framing tariff legislation, and for the purpose of keeping Congress informed concerning changes

> in industrial and commercial conditions which may justify or necessitate corresponding changes from time to time in the tariff."
>
> "Provision in the law for the negotiation of commercial agreements with foreign nations on the basis of a maximum and minimum tariff, and of the concession of minimum rates to the products of those foreign countries which reciprocate by giving corresponding concessions in the rates of duty on American products when imported by such foreign countries."

Substantially similar resolutions have been adopted by a great number of civic, industrial, and commercial associations, chambers of commerce, boards of trade, etc., throughout the country. Against these, however, may be set the resolutions adopted by the American Protective Tariff League at its annual meeting in New York, reported by the press under date of January 30, 1909, which read as follows:

> 1. "Resolved that the American Protective Tariff League is unalterably opposed to the creation of any such body. (A Tariff Commission.)
>
> 2. Resolved that the Tariff League stands ready to give to those Committees and to Congress every support in its power by way of the most complete information as to the needs of American industrials and the needs of American labor.
>
> 3. Resolved that the American Protective Tariff League, in annual meeting assembled, heartily approves of said policy of the Ways and Means Committee of the House of Representatives, and as endorsed by members of the United States Senate."

But the press dispatches which published the foregoing resolutions contained also the following information concerning a call for help from the Ways and Means Committee, on the executive departments of the government, for a little of that technical and unbiased information which it so urgently needs, and which it would be the function of the proposed Commission, or Agency, to furnish; a "C. Q. D." message, as it were, from unskilled mariners adrift without compass on a sea of inexperience and perplexity.

> "Members of the House Committee on Ways and Means recently asked different executive departments to procure for them from foreign countries all the facts obtainable regarding the cost of labor and other expenses incident to the production of manufactured articles abroad for use in the preparation of the tariff bill. A large

> mass of such data has been received and much of it has come in the various languages of the countries in which it originated. The bureaus supplying the information are generally limited in the number of their clerks, and most of them are especially short of translators. The committee itself has none. Whether the house will provide the needed translators, or dispense with the information, is problematical."

Is not this direct evidence in favor of the creation of a permanent Commission or Bureau for the purpose of collecting and collating information of the many kinds needed for this work, and capable of furnishing such information to Congress when and as needed?

A PRECEDENT.

IN contrast to the manner in which Congress thus attempts to deal with technical problems may be cited that Bureau of the Government known as the Patent Office, created to deal with technical problems in their relation to another phase of governmental control, namely, the granting of protection, for limited periods, on new contributions to the industrial arts. Originally each patent was a direct grant from Congress. The rapid development of industry and invention caused Congress, at an early day, to transfer this work to an administrative department, organized for the purpose and competent to deal with the technical questions involved. The work of the Patent Office is now distributed among 42 Divisions, in charge of a like number of principal Examiners, aided by 284 Assistant Examiners. Is there any sound reason why, in like manner, Congress should not now create a Tariff Office or Bureau, charged with the duty of collecting information, at home and abroad, pertinent or essential to a full comprehension of tariff problems, in form available for the use of Congress, and for the purpose of aiding the latter in the wise exercise of its power of legislating in regard to revenue and taxation, a power which under the Constitution it alone can exercise? Does not Congress need, and should it not welcome, assistance of this kind in performing this most important of its many and increasing duties?

The whole tendency of modern science, whether in the work of research or in the application of science to the uses of man,

is to specialize, to recognize the vastness of the field and the impossibility for the individual to understand thoroughly more than some fractional part thereof to which he devotes himself, and to concentrate the work of the individual within the lines which are thus implied. Has not the growth of our tariff system already reached a point where this necessity for specialization is apparent, and where it can best be met by the creation of a permanent Tariff Office or Agency? This question has been answered in the affirmative by other industrial nations, above all by Germany. The proposed solution involves no doubtful experiment or innovation. The experience of other nations is available to guide us, and points to what we may accomplish by reorganizing our methods on similar lines and in conformity with modern conditions and usage.

PENDING BILLS.

THE President-Elect, Mr. Taft, in a letter to Chairman Payne of the Ways and Means Committee, has expressed himself on the subject of a Tariff Commission as follows:

> "A tariff commission would be harmful or useful as its functions were described in the bill. My own ideas have been that there ought to be a permanent commission of tariff experts to keep themselves advised by all the means possible of the cost of producing the article named in the schedule in foreign countries and in this country.
>
> "I think that what we lack is evidence, and some such means might very well be used for the purpose of securing it.
>
> "I should be the last to advocate a commission with any power to fix rates, if that were constitutional, as it would not be, or with any function other than that of furnishing the evidence to Congress upon which from time to time it might act."

Two bills for the creation of a "Tariff Commission" are now pending in Congress. The Senate, or "Beveridge," Bill provides for a Commission charged with the collecting of statistical data here and abroad, and with the furnishing of information based thereon for the use of Congress in framing tariff legislation. The House, or "Fowler," Bill covers similar provisions, but goes farther by giving power to the Commission to fix duties, either generally or for individual countries, between such maximum and minimum limits as Congress may authorize. In both cases the intent appears to be to create a Commission which shall be an

adjunct to Congress, designed, among other purposes, to do for that body collectively what is now done in other directions for Senators and Representatives individually by their respective clerks, stenographers, and other assistants. It would seem expedient to give careful consideration to the alternate plan of vesting the functions proposed to be assigned to such Commission in a permanent Bureau of one of the administrative departments, presumably the Department of Commerce and Labor, where its work could readily be organized and effectively be directed, reserving to Congress or its Committees the power of indicating from time to time the work which it desires to have done. The latter plan would harmonize perfectly with the object set forth in the call for this Convention, namely, "The creation of a permanent, non-partisan, semi-judicial,, Tariff Commission, which shall collect collate, and study industrial and commercial facts, in this and other countries, pertinent to the tariff question, for the information and use of Congress and the Executive." This is admirably paraphrased in the statement by President J. W. Van Cleave, of the National Association of Manufacturers, in these words: "We want a Commission to ascertain *facts,* on which Congress can base rates."

WORK OF COMMISSION.

THE functions assigned to a Commission or Agency created for these purposes might properly include the following, viz.:

1. The collection and analysis of statistical facts, in this and foreign countries, relating to articles embraced in the tariff schedules.
2. The collection of similar data concerning the tariffs of other countries, especially those with whom we have important commercial relations.
3. The collection of information concerning rates of wages, prices of materials, cost of living, etc., in this and foreign countries, especially as affecting the cost of articles covered by the tariff.
4. Estimates, based on the information thus obtained, of the probable revenue yield of any proposed new duty.

5. Such other work of similar kinds as may be called for by Congress through its committees.
6. The compiling and tabulating of all information so obtained, in the forms best adapted to serve the convenience of Congress and to assist it in framing tariff legislation.
7. The drafting of tentative tariff schedules, under the direction of Congress, to facilitate the work of the latter in framing tariff bills.
8. Furnishing to the State Department information useful to the latter in considering, negotiating, or framing reciprocity and other commercial treaties.
9. Furnishing information to other executive departments of the government which may be germane to their work or useful in connection therewith.

Briefly, the motto of the Commission might be "To Furnish Facts, not Opinions."

An intelligent consideration of the work to be done by the proposed Commission should precede the question of its organization. With the general scope of its work clearly defined, the best mode of constructing the Commission will probably suggest itself. Its authority may be vested in a body of say five or more persons, or in a single head. In either case provision would be needed for a permanent staff of competent experts, experienced in all of the main divisions, at least, of industry, commerce, and applied science. If it is recognized that such a Commission has now become an indispensable need, and should be made a permanent part of our national administration, it would follow logically that due care should be exercised in framing the bill creating the Commission, and, while definitely fixing its character, scope, and powers, to provide reasonable flexibility as to details leaving these to be worked out in the light of practical experience.

The study of this question may demonstrate that the best form of organization is that of a Bureau, such as the present Bureau of Statistics in the Department of Commerce and Labor, in which event an appropriate title would be "Bureau of Tariff Research," or "Tariff Statistical Office."

CONTINUOUS REVISION.

TARIFF revison should be continuous, not intermittent. The conditions which affect industry and commerce are ever in a state of flux; they are rarely fixed, and never for long periods. Among the many arguments against the intermittent system, and in favor of the continuous system of revision are the following, viz:

Under the intermittent system a general, and usually a serious, disturbance exists and continues for many months preceding each recurring revision of the tariff. To-day business halts, awaiting the outcome of the present discussion, in Congress and the country, concerning tariff revision. When revision is undertaken it involves the entire tariff structure, and opens the flood gates to opposing theories, clashing interests, and the pursuit of selfish ends by everyone concerned. The manner in which the work is done under such conditions has been alluded to above, and is antagonistic to the best results. The struggle endures for several months, when the curtain is rung down, the lists are closed and the new tariff is put into effect, to endure for weal or woe for many years. During the past nineteen years we have had three such upheavals, as follows:

1890.	McKinley Tariff.	In effect about 4 years.
1894.	Wilson Tariff.	In effect about 3 years.
1897.	Dingley Tariff.	In effect 12 years.

When the end of the period arrives, and often for many months preceding it, business is again disturbed by doubt and the fear of impending changes, and great injury thus done to commerce and industry. Industry halts when revision impends.

Under the continuous system most of these adverse conditions would disappear or be reversed. In one sense the tariff would never be revised, in another it would be revised daily. Changes would be studied and suggested by the Commission, but could be made only by Congress. These might be massed in a single bill at each session, covering the changes which had developed as expedient during the preceding year, or, more probably, would be disturbed throughout each session of Congress among numerous minor bills, each relating to one or a few such changes. The

facts underlying and necessitating or justifying such changes would be ascertained, studied and reported to Congress by the proposed permanent Commission or Bureau.

A new tariff bill, no matter how carefully framed, contains unavoidably various errors and inequalities, the correction of which should follow their discovery as soon as they have been properly studied and are clearly understood. Further changes should follow from time to time, as the conditions, either here or abroad, affecting this or that item in the schedules, change to an extent which either justifies or necessitates corresponding changes in the tariff. The final result of such successive changes in detail would be, for the tariff *as a whole*, substantial fixity and permanence, with freedom from all need or apprehension of sweeping revisions at uncertain intervals, but, *as to individual items*, facility for correcton and change whenever and to whatever extent changing commercial and industrial conditions might, in the judgment of Congress, guided by the information furnished by the Tariff Commission or Bureau, seem to be expedient or necessary. The whole tendency under such a plan would be steadily toward a closer, more scientific, and fairer adjustment of the schedules to the "Neutral Line," and, coincidentally, a steadily diminishing need or occasion for tariff changes except to meet new conditions.

Is it not clear that the United States has outgrown its old method of studying and framing tariff legislation, and that a new and better method is needed? If this be granted, is it not equally clear that the logical and scientific method is to create a permanent technical Tariff Commission or Bureau to undertake the work above set forth, and, under the direction of Congress, to assist the latter in ascertaining the "Neutral Line," to detect departures from it, and to frame legislation which will best conserve all interests and tend to remove all inequalities and injustice? With such a Commission or Bureau, so organized, so directed, and so controlled, we would thus have a tribunal for

(a) The Consumer, the people, to appeal to.

(b) The Producer, who seeks relief.

(c) The Congress, to obtain facts, advice, and assistance.

(d) The Administration to obtain facts and information pertinent to commercial treaties.

The Commission would thus become, as it were, a court of first instance, while Congress would remain a court of review and final jurisdiction. The latter would largely be relieved from detail, confusion, and the clash of selfish interests, and instead would have placed before it, for orderly review, consideration and constructive legislation, reliable facts, intelligently and impartially presented and clear, well defined issues.

Can we better solve our present problems, in this most vitally important part of our national government and finances, than by fairly trying the Commission or Bureau plan? If we find it good, we can then retain it; if we find it defective, we can seek to amend it; if finally we find it bad, we can abandon it. Whatever the outcome, is it not certain that the experience will prove helpful and enlightening, and that the experiment, if not permanently satisfactory, will at least point the way to a better solution?

TARIFF FRAMING.

THE tariff, being primarily a revenue measure, presumably consideration should first be given to determining the amount of revenue which it will produce. In some cases this question may admit of easy solution, but in many others the problem is complex and its solution difficult. A duty may be so high as to curtail or even prohibit imports. In the latter case it ceases to be a source of revenue, and becomes a subsidy to the protected interest. Before a subsidy is enacted into law, a clear understanding should be had as to its nature, as to the interests which would be benefited, and as to the interests which would suffer. The effort should be to find the "Neutral Line," and for this a complete and impartial knowledge of the technical facts involved is essential.

In framing a protective tariff which includes both taxes and subsidies, the effort should be to find, *as to each item,* the "Neutral Line" intermediate between conflicting and opposing interests,

Between the interests of the producer and those of the consumer,

Between the one who pays the tax and the one who benefits by it,

Between the weight and importance of admitted benefit and profit, on the one hand, and of unavoidable injury and cost on the other.

For all of the purposes thus implied the proposed permanent Commission or Bureau would become a most helpful instrumentality and adjunct to Congress.

THE INTEREST OF LABOR.

IN all discussions of the tariff the plea is made that a chief purpose in view is "protection to American labor." Are we not liable to be misled by this plea? Does labor actually share, and, if so, to what extent, in the proceeds of the tax resulting from a protective duty? Is it not a fact, known to all employers of labor, that, in fixing any individual rate of wages, no thought whatever is given to the tariff; that in every case the employer takes account solely of the value or efficiency of the workman, and of the current rate of wages in the trade to which he belongs; that the workman is guided solely by his knowledge as to this current rate, and by his needs; and that each makes the best bargain he can? Is it not true, further, that the rate of wages, in every trade, depends in large part upon the cost of living, and that a high tariff, by enhancing the prices of the products which it affects, tends to increase this cost? Finally, is it not true that the real measure of a wage-rate is its *purchasing* power, and that needlessly high tariff rates tend to diminish the purchasing power of wages?

Granting the arguments thus implied, it follows that in fixing rates of duty at least equal effort and care should be devoted to investigating the incidence of the tax, and the burden it will impose on those on whom it will fall, as is devoted to considering the benefits which it may yield to those whom it is intended to protect. Here, agan, we should seek to find the "Neutral Line." Has not the present system failed to do this, and would

not the proposed Commission or Bureau of Tariff Research afford a partial, if not a complete, remedy by tracing and forecasting the effect of proposed duties on American labor?

OUR EXPORT TRADE.

THE United States is the great exemplar of free trade. Nowhere else, at any time in the world's history, have trade and commerce been so absolutely free and untrammeled as they are to-day in this great country, and among its eighty millions of people. But students of economics predict that before long we will need, if we do not to-day, a larger market in which to dispose of the rapidly increasing output of our soil, mines, farms, and factories; that, great as is the consuming power of our own people, it will soon be exceeded by the producing capacity of our manifold industries; and that, unless we soon take adequate measures to provide for the broadening of our foreign markets, there will develop an increasing pressure to sell in the home market, which, if not relieved, will tend to glut the latter, and which, by the increasing intensity of domestic competition, will operate inevitably to depress all prices in the domestic market. If this forecast of coming industrial and commercial events is sound, should we not promptly, in the adjustment of our tariff, seek to find that "Neutral Line" which, without serious or lasting injury to our domestic trade, will serve most effectively to open new and larger outlets for the export of our surplus products?

We are still chiefly producers of raw materials, and the greater part of our exports still consists of simple products which other industrial nations buy from us to convert into more highly finished goods, a large part of which latter they resell to us. For example, about 74% of all cotton is grown in the United States, but of this only one-third is converted here into finished goods, the other two-thirds being sold abroad as raw cotton, there to be converted into the finished product and sold in the markets of the world, which we are seeking to enter, and much of it resold to us. Of the cotton textiles sold in 1907 in South America, $47,000,000 were bought in England, and only $3,700,000 in the United States. Should not our tariff policy aim to promote the larger conversion of our raw materials into finished

products *at home,* thereby giving increased employment to American labor? To accomplish this we need to find the "Neutral Line," which, while promoting the growth of our manufactures, will yet safeguard the interests of our producers of raw materials. For the study of the new and complex questions involved in this problem would not the proposed Commission or Bureau be invaluable to the nation and to its representatives in Congress?

In the case of India rubber we admit the crude article free, presumably for the reason that it cannot be produced in the United States, while a duty, ranging from 30% to 60%, is imposed on the manufactures of rubber. Under this condition the rubber industry of the country has attained vast proportions, and many of its products are largely exported. May it not be possible advantageously to extend the policy thus implied into other lines of industry, and more largely than heretofore, by finding more accurately and scientifically that "Neutral Line" of tariff adjustment which, while fairly respecting and protecting those industries which yield the cruder products, those forming the raw materials of manufacturing, will so operate as to secure for our manufacturers opportunity to purchase their materials on favorable terms, and thus, by increasing their ability to compete in foreign markets, increase the field of employment for American labor, both in its lower and higher forms?

In this connection it should be kept in mind that the finished product of one industry, especially of those which are closest to the natural article, becomes the raw material of the industry next higher in the scale of manufacture. Thus cotton passes successively from the field to the bale, into yarn, into cotton cloth, and finally into print goods and still higher products, each of these stages constituting a distinct industry, and all forming a progressive chain. Except so far as profits and royalties are added to cost at each of these progressive stages, the entire cost of almost every finished article consists of labor, applied successively and cumulatively throughout the progressive series of operations. Whatever tends, by lowering the purchasing power of money, to enhance the wages rate, operates directly and proportionately to enhance the final cost of the product, without compensating benefit to the wage-earner, and to the disadvantage

of the manufacturer who seeks to find an outlet for his surplus product in export markets. As explained elsewhere, wages rates are not fixed with direct reference to the tariff, but chiefly are determined by the cost of living, and by the purchasing power of the money in which the wages are paid.

THE FORM.

AS shown by the above, the form of agency which thus far has been considered almost exclusively is that of a "Commission." Two forms of commission have been suggested: (1) A mixed commission, composed of members of Congress and men selected as leading authorities or experts in various fields of applied science; and (2) a governmental commission composed wholly of persons in the permanent and exclusive employ of the Government. Either plan contemplates also a staff of experts, clerks, stenographers, and other assistants.

Of these alternatives the second seems to possess greater advantages, and to offer better grounds for believing that it will accomplish its purpose successfully. Continuity of method, of work, of development, and of experience, and singleness of purpose, are as essential to the best result in this case as in most other undertakings. A member of Congress could devote at best but a fraction of his time to this work, and, therefore, would not be in continuous relation with his associates. Should his term of office end, his services and his accumulated experience in this work would be lost, and his place would be taken by a new man, who would have to acquire over again all of the knowledge and experience which his predecessor had gained. On these grounds and many others it would seem better that the proposed organization should be composed wholly of *permanent* officers and employees, and that the time and services of members of Congress who may have to deal with this subject should be devoted exclusively to the work of reviewing the information furnished and the conclusions reached by the permanent tariff agency, and to the *constructive work* of framing legislation based thereon.

If the latter view be accepted, the question then arises, would it not be better to abandon the idea of a "Commission," and to

substitute therefor the Bureau form of organization? If so, the experience of the Administrative Departments, in the organization and management of the numerous Bureaus existing within them, should form a valuable guide. Presumably such an organization would imply a single responsible head, with a staff of assistants proportionate to the amount of work assigned. Among these should be men whose previous education and experience qualify them as experts in at least the leading lines of technical knowledge and applied science which enter into the tariff problem. As in the Patent Office, each such expert should have assigned to him a well defined field of work, in which he and his assistants, as experience accumulates, may each acquire increased knowledge and experience in his special field, and thus become increasingly useful for the purposes for which the Bureau would exist.

This process of "functional management" is typical of modern tendencies in almost every field of work. It is the direct and natural outcome of the specialization of modern science and modern industry, and its tendency reacts further to increase that specialization. The benefits of functional management are now beyond discussion, and should be sought in this important division of the work of government. The mere proposal to create a "Tariff Commission" implies a recognition of the highly specialized nature of the work, and the need of providing functional assistance for the legislative department of the government in dealing with tariff problems.

CONCLUSION.

THE essential features in the foregoing argument may be summarized as follows, viz.:

1. The tariff embodies the heaviest tax which the people of the United States impose on themselves; it yields one-half of the national revenue.

2. The present method of fixing tariff rates is through Congressional Committees, acting chiefly on *ex parte* evidence, unaided by neutral expert advice, and acting at long intervals.

3. This method produces inequalities which are unnecessary, unjust, and either harmful or absurd; it is crude, unscientific, and outgrown; it should be replaced by a better and more modern method.

4. The present method imposes an unnecessary and unreasonable hardship on Congress, by requiring its Committees to do, under extreme pressure and a most unfavorable environment, preparatory work for which their members possess no previous training or experience, for which they have no adequate opportunity, which is highly technical and specialized, and which should be done for them by a properly constituted subordinate agency.

5. The remedy is a permanent technical Bureau of Tariff Research, to collect, collate, analyze, and report industrial and commercial data, domestic and foreign, for the use and guidance of Congress and the Executive Departments.

6. Tariff revision should be continuous not intermittent, thereby steadily approximating the tariff more closely to the "Neutral Line" of the greatest good and the least injury to all interests; adjusting it promptly to current changes in industrial and commercial conditions at home and abroad; obviating the chronic upheavals of business which intermittent revisions involve; and giving to the people continuity and steadiness, combined with reasonable flexibility, in this vitally important factor in their national and private affairs.

7. The influence of the tariff on wages rates is indirect, not direct; it chiefly influences them by affecting the cost of commodities and living, which in turn chiefly determine the rate of wages; the true measure of a wage-rate is its purchasing power; hence anything tending to enhance the general cost of living operates to depress the purchasing power of wages; therefore, the tariff should be adjusted with regard for all its effects on all the people, not with regard for protected interests only.

8. Our domestic production is rapidly overtaking our domestic consumption; hence our tariff policy should aim to find that "Neutral Line" which, while conserving the home market, will

also best promote our progress in ability to compete on equal terms with the other great industrial nations in the markets of the world.

9. We are now exporters chiefly of raw products which other nations, our competitors, convert into finished goods and re-sell in higher forms in the markets of the world, largely to us; our tariff policy should aim to encourage a larger conversion of our raw materials into finished goods at home and by American labor, to promote which end Congress should have the assistance of a permanent Bureau of Tariff Research, or its equivalent.

10. Finally, Congress should now address itself to the creation of a permanent governmental office or Bureau, organized and maintained for the continuous and scientific study of the problems thus indicated, which shall perform, as Congress may direct, all of the technical work involved, through a competent staff of experts, statisticians, translators, stenographers, and clerks; which shall furnish to the Committees of Congress such information and assistance as they may call for; and which shall thus effectively aid Congress in finding the best solution of our tariff problems, in maintaining the tariff at all times in close adjustment to current conditions, and in overcoming the evils of our present system of intermittent revision, with the recurring upheavals which it involves in the business affairs of the Nation and the People.

ADDENDUM

THE doubt expressed on page 20 of the preceding paper, as to the choice between a "Commission" or a "Bureau," disappeared completely during the discussions which took place at the Indianapolis Convention, February 16-17-18, 1909. The arguments there advanced showed conclusively that, while the "Bureau" form may be the best for the routine work of collecting, collating and digesting statistical facts, and perhaps the most expedient form to adopt for the present, the higher and

still more important work which will ultimately be needed could better be done by a permanent "Commission," especially the semi-judicial work of adjudicating between conflicting claims, determining on recommendations as to tariff legislation, and advising upon the framing of trade agreements with other nations. Having in view all of the possibilities thus implied, it seems clear that the best *ultimate* form of organization would be a Commission, consisting of seven or nine members, corresponding in character, dignity and rate of compensation to the present Interstate Commerce Commission, with an effective Bureau, organized under its control, for the accomplishment of the vast amount of detail work to be done.

WORK OF THE INDIANAPOLIS CONVENTION

THE result of the addresses delivered and the discussions which took place during the Convention was the adoption, by a practically unanimous vote, of the following resolutions, viz.:

RESOLUTION.

"We demand from Congress, for the equal benefit of all classes of the people, and in the name of all American industry, of farm, factory, labor and commerce, represented in the National Tariff Commission Convention, held at Indianapolis, Ind., on February 16, 17 and 18, 1909, consisting of delegates from forty-two States and representing 223 Agricultural, Civic, Commercial and Industrial bodies, the immediate creation of a permanent Tariff Commission, for the following purposes and ends, through Congressional action, viz.:

"*First*: The collecting, and the intelligent, thorough and unprejudiced study of Tariff facts.

"*Second*: The preservation and promotion of our domestic and the development and enlargement of our foreign trade.

"*Third*: The accomplishment of this by reciprocal trade agreements, based on maximum and minimum schedules.

"*Fourth:* The adjustment of the tariff schedules so that they shall affect all interests equitably.

"*Fifth*: The fixing of the rates of duty to be paid on the imports from any foreign country, within the limits of the maximum and minimum rates established by Congress, under reciprocal trade agreements negotiated by or under the direction of the President, in order thereby to develop and protect our foreign trade by the means favored by President McKinley and authorized by Sections 3 and 4 of the Dingley Law.

"We urge that, prior to the passing of a Bill creating such a Commission, Congress, during its special session about to be

called, shall prepare and adopt, with the assistance of the best information presently available, a revised tariff, as completely and accurately adjusted to present conditions, and therefore as stable, as is possible at this time."

REASONS AND EXPLANATIONS.

"We make this demand because:

"First: The Tariff yields one-half our total revenue—$333,000,000 in the fiscal year 1906-7—and concerns all classes and all the people. While it favorably affects the rate of wages, it also influences the cost of living, and, therefore, the purchasing power of wages. It directly affects the cost of production, and, therefore, our ability to compete in foreign markets. The problem is vast and complex, and vitally affects all industry and commerce.

"Second: It imposes on Congress technical work which it should not be required to perform. It results in unnecessary, unreasonable and unfair discrepancies and errors. It perpetuates such errors for long periods, involves intermittent revision, and tends to violent changes of policy.

"Third: The Commission plan will substitute a scientific method which will establish the neutral line of maximum benefits and minimum evils to all interests. It will accomplish this by a governmental agency, properly equipped to furnish Congress with the vast amount of cumulative technical data required to assist it, both in framing legislation based thereon, and in forecasting the results of such proposed legislation; enable Congress to concentrate its time and efforts on constructive legislation based on such facts, and assist our Executive departments to intelligently negotiate commercial agreements for the increase and extension of our foreign trade. It will promote the prosperity of the country and the larger employment of American labor, by encouraging the conversion of our raw materials into finished products before their export to foreign markets. It will provide for the prompt correction of errors in the Tariff and a recognition of changing conditions."

Resolved: That this Convention heartily endorses the position of the President-elect, the Honorable William H. Taft, in his open letter to Honorable S. E. Payne, Chairman of the Committee on Ways and Means, which is as follows:

"A Tariff Commission would be harmful or useful as its functions were described in the Bill. My own ideas have been that there ought to be a permanent Commission of Tariff experts to keep themselves advised by all the means possible of the cost of producing the article named in the schedule in foreign countries and in this country.

"I think that what we lack is evidence, and some such means might very well be used for the purpose of securing it.

"I should be the last to advocate a Commission with any power to fix rates, if that were constitutional as it would not be, or with any function other than that of furnishing the evidence to Congress upon which from time to time it might act."

The Convention also adopted a resolution for the creation of a permanent organization in the form of a "General Committee," consisting of one hundred members, to be appointed by the President, at least two members to be appointed from each State of the Union, and an Executive Committee of ten members, also to be appointed by the President, of which he shall *ex officio* be a member.

The permanent officers selected were as follows:

President, J. W. Van Cleave, St. Louis, Mo.
Chairman Executive Committee, H. E. Miles, Racine, Wis.
Treasurer, John Kirby, Jr., Dayton, Ohio.

MSH 20297

END OF
TITLE